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SUBJECT: Hewitt Associates Survey on Expat Hiring: Number of Expats Expected to Continue to Grow

¶11. (U) Summary: Among the recent conclusions of a Hewitt Associates study of Expatriate Hiring and Returnee Wages and Benefits released December 7 were:

-- An expected increase in the number of expats from 150,000 to over 200,000 within a few years; as business opportunities for foreign firms grow, so too will the number of expats as there are not enough local Chinese to meet the demand for managers;

-- The mix of expats hired is changing as well, with many of them now hired locally here in China and this has an impact on benefits packages;

- Unrealistic expectations by management for rapid development of the next generation of business leaders. In most places it takes 12-15 years or more to develop good managers and corporate leaders; it is not really possible to telescope that into 5-7 years, without some costs, especially if that means promoting inexperienced people; and

-- The competition for managers will escalate as an increasing number of Chinese firms themselves begin to go global.

End Summary.

¶12. (U) At an AmCham-hosted luncheon on December 7, Hewitt Associates reviewed its latest Expatriate Hiring and Returnee Wages and Benefits Survey, the largest survey done in China on this topic with 133 - mostly large - multinational companies participating.

Number of Expats Increasing

¶13. (U) Despite continuing plans to localize their China-based workforces, companies have been increasing the numbers of expatriate employees - from 70,000 in 2002 to more than 150,000 in 2006. More than 50% of the companies surveyed expect the numbers of expatriates in their companies and in China to grow and that within a few years, there will be over 200,000 expats. The reason is simple: MNCs continue to flood into China and establish their headquarters or functional centers, such as R&D, logistics, and procurement centers, primarily in Shanghai and Beijing, with a smaller number in Shenzhen and Guangzhou. The expectation is that as business opportunities grow, so too will the number of available managerial positions and there simply are not enough local Chinese with managerial experience to meet the demand. IBM, for example, will move its global procurement center to Shenzhen and will need 3,000 employees, many of whom will be expatriates, especially in the beginning. At the same time, the banking sector in China will open in December 2006, per China's commitments under the WTO. Some foreign banks have just established a China presence to take advantage of the opening and others, such as Citigroup, are increasing their country coverage by purchasing parts of Chinese banks (Citigroup bought into the

Guangdong Development Bank). Some of these banks are reportedly seeking as many as 1,000 banking specialists in what is already a very tight market for trained employees with such skills. For now, the banks - and insurers - are busy poaching one another's staff.

Problems in the Search for Managers

¶4. (U) MNCs are also moving to China to establish their Asia/Pacific regional headquarter offices, adding further strains in the hunt for local talent. If it is difficult to find trained local talent for the China market, it is even more difficult to find local people trained for regional operations. To compensate for the talent shortfall, companies hire expatriates and returnees. In its study Hewitt looks at traditional western expatriates as well as expatriates from Hong Kong, Taiwan, other Asia, Chinese returnees, and expatriates hired inside China.

¶5. (U) There is a changing mix of expat hires in China from earlier years. There is an increasing trend to hire expats already residing in China (47%) with only 24% of expat hires coming under the traditional model. Chinese returnees are another major source of hires with foreign experience. In a recent informal study in a German university, one-third of the graduate students were from China. Of these, the majority said they would return immediately to China from Germany upon graduation. The bulk of the remainder said they would return to China after working in Germany for several years to gain experience.

Wither the Benefits Package

¶6. (U) While salary trends are up, the localization trend has

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increasingly manifested itself by localizing benefits packages, in part due to the increase in China-hire expatriates. The localization of benefits, with the diminution or loss of hardship benefits, premium pay in favor of performance pay, tax assistance, etc., has further increased the turnover of China-based expats in search of contracts still containing these benefits. Hewitt cited increased pressure on managers to deliver high rates of profit (often unrealistic goals of 30% growth per year) also leading to high turnover. Turnover of senior expat managers is a high 8.3%, and that of mid-level managers is 5.4%, much higher than the 3% norm in the United States. Local Chinese staff turnover remains extremely high at 13-14%.

Training Corporate Leaders

¶7. (U) The huge growth in the market cannot be supplied by China alone, so the need for expatriates will continue to grow. At the same time, fewer expatriates are hired as the top managers. A much higher percentage is now made up of middle managers and specialists. Hewitt stressed that the China market will be short of local talent for the next 15-20 years at least, leaving much room for expatriate hires. Among the key challenges are:

- Demand beyond supply.
- An increase up the value chain (of employee costs).
- Voluntary turnover at record highs.
- Expatriate and local talent shortages.
- The question of developing leadership or purchasing it at a premium in the marketplace.
- Significant wage inflation.
- Shortened leadership development times.
- Unrealistic expectations by management for rapid development of the next generation of business leaders. In most places it takes 12-15 years or more to develop good managers and corporate leaders; it is not really possible to telescope that into 5-7 years, without some costs, especially if that means promoting inexperienced people

¶8. (U) Hewitt offered no solution, but explained that its survey only highlighted the dilemma. The leadership shortfall requires

that companies understand their management and leadership needs, have a plan for leadership development, implement a robust evaluation and analysis review system, and identify individual development needs in a targeted manner. Despite criticism that the majority of China's single-child family children have a prince/princess mentality and an over-inflated sense of worth that is encouraging rapid turnover, these people could well price themselves out of the market. Hewitt said that talented people are in every population and it is critical to locate and develop that talent.

China Too Will Need Managers as It Goes Global

¶9. (U) Hewitt noted that this survey is focused on MNCs and not on Chinese companies; however it admitted receiving an increased number of inquiries from Chinese companies who face similar problems. These problems will escalate as an increasing number of Chinese firms themselves begin to go global.

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